

AUDIT REPORT

TOWN OF GARVIN, OKLAHOMA

JUNE 30, 2013



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF GARVIN, OKLAHOMA
JUNE 30, 2013

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TOWN OF GARVIN, OKLAHOMA
JUNE 30, 2013

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TOWN OF GARVIN, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2013

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>
BYRON FOSTER	MAYOR
ANTHONY SMITH	TREASURER
CRYSTAL LINKSWILER	TRUSTEE
DAVID RODGERS	TRUSTEE
HOLLY COFFMAN	SECRETARY

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Garvin, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Garvin, Oklahoma, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

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accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

As described in the Notes, the combined financial statements referred to above do not include the financial activities of the Fire Department Fund which should be included as a special revenue fund, in order to conform with the modified cash basis of accounting. The effect of this omission on these modified cash basis financial statements is not reasonably determinable, but is considered sufficiently material.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Garvin, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory and supplementary sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures

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applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 5, 2014, on our consideration of the Town of Garvin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Garvin's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

June 5, 2014

TOWN OF GARVIN, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2013 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 11,685	\$ 52,203	\$ 63,889
Investments	12,109	16,466	28,575
Total Current Assets	23,794	68,670	92,464
<u>Other Assets:</u>			
Cash and cash equivalents - Restricted	-	10,115	10,115
Total Other Assets	-	10,115	10,115
<u>Capital Assets:</u>			
Capital Assets, net of Accum. Depreciation	205,782	430,758	636,540
Total Capital Assets	205,782	430,758	636,540
TOTAL ASSETS	229,576	509,543	739,119
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Current Portion of Long-Term Debt	-	2,974	2,974
Customer Deposits	-	7,323	7,323
Total Current Liabilities	-	10,297	10,297
<u>Long-Term Liabilities:</u>			
Capital Debt Obligations	-	-	-
Notes Payable - USDA RD	-	15,547	15,547
Less: Current Portion of Long-Term Debt	-	(2,974)	(2,974)
Total Long-Term Liabilities	-	12,573	12,573
TOTAL LIABILITIES	-	22,870	22,870
<u>NET POSITION</u>			
Net investment in capital assets	205,782	415,211	620,993
Restricted for:			
Debt Service	-	10,115	10,115
Other Purposes	-	-	-
Unrestricted	23,795	61,347	85,141
TOTAL NET POSITION	\$ 229,576	\$ 486,672	\$ 716,248

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF GARVIN, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 66,537	\$ -	\$ 24,015	\$ -	\$ (42,522)
Public Safety	-	-	-	-	-
Highways & Streets	-	-	-	-	-
Debt Service - Interest Expense	-	-	-	-	-
Total Governmental Activities	66,537	-	24,015	-	(42,522)
Business-type activities:					
Water, Sewer & Sanitation	44,078	42,603	-	-	(1,475)
Total Business-type Activities	44,078	42,603	-	-	(1,475)
Total	\$ 110,615	\$ 42,603	\$ 24,015	\$ -	\$ (43,996)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (42,522)	\$ (1,475)	\$ (43,996)
General revenues:			
Taxes:			
Sales Tax	18,833	-	18,833
Cigar Tax	272	-	272
Franchise Tax	2,340	-	2,340
Intergovernmental:			
Motor Vehicle Tax	1,828	-	1,828
Alcoholic Beverage Tax	4,090	-	4,090
Gasoline Excise Tax	280	-	280
Donations	-	-	-
Sale of Property/Equipment	-	-	-
Miscellaneous Income	10,889	-	10,889
Interest Income	101	130	231
Transfers - Internal Activity	-	-	-
Total general revenues & transfers	38,632	130	38,762
Changes in net position	(3,890)	(1,344)	(5,234)
Net position - beginning	233,466	488,017	721,483
Net position - prior year adjustment	-	-	-
Net position - ending	\$ 229,576	\$ 486,672	\$ 716,248

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF GARVIN, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Community Center	Wellness Center	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,484	\$ 104	\$ 6,829	\$ 268	\$ 11,685
Investments	12,109	-	-	-	12,109
TOTAL ASSETS	<u>\$ 16,593</u>	<u>\$ 104</u>	<u>\$ 6,829</u>	<u>\$ 268</u>	<u>\$ 23,794</u>
LIABILITIES & FUND EQUITY					
LIABILITIES:					
Payroll Taxes Payable	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	104	6,829	268	7,201
Assigned	-	-	-	-	-
Unassigned	16,593	-	-	-	16,593
TOTAL FUND BALANCES	<u>16,593</u>	<u>104</u>	<u>6,829</u>	<u>268</u>	<u>23,794</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,593</u>	<u>\$ 104</u>	<u>\$ 6,829</u>	<u>\$ 268</u>	<u>\$ 23,794</u>

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$205,781.33, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds.	205,782
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>-</u>
Net Position of Governmental Activities	<u><u>\$ 229,576</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF GARVIN, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Community Center	Wellness Center	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Sales Tax	\$ 18,833	\$ -	\$ -	\$ -	18,833
Cigar Tax	272	-	-	-	272
Franchise Tax	2,340	-	-	-	2,340
Intergovernmental:					
Motor Vehicle Tax	1,828	-	-	-	1,828
Alcoholic Beverage Tax	4,090	-	-	-	4,090
Gasoline Excise Tax	280	-	-	-	280
Grants	-	24,015	-	-	24,015
Donations	-	-	-	-	-
Sale of Property/Equipment	-	-	-	-	-
Miscellaneous Income	1,350	-	4,319	5,220	10,889
Interest Income	94	-	7	-	101
TOTAL REVENUES	29,087	24,015	4,326	5,220	62,647
EXPENDITURES:					
General Government	57,190	338	3,267	5,742	66,537
Public Safety	-	-	-	-	-
Highways & Streets	-	-	-	-	-
Debt Service	-	-	-	-	-
Capital Outlay	-	-	-	-	-
TOTAL EXPENDITURES	57,190	338	3,267	5,742	66,537
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(28,103)	23,677	1,059	(523)	(3,890)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	23,641	-	-	-	23,641
Operating Transfers Out	-	(23,641)	-	-	(23,641)
Capital Debt Proceeds	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	23,641	(23,641)	-	-	-
NET CHANGES IN FUND BALANCES	(4,462)	36	1,059	(523)	(3,890)
FUND BALANCE - BEGINNING OF YEAR	21,056	68	5,770	790	27,684
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 16,593	\$ 104	\$ 6,829	\$ 268	23,794

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF GARVIN, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	(3,890)
--	----	---------

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Capital debt obligation principal payments		-
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Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

Capital Debt Proceeds		-
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		-
Depreciation expense		-

	\$	(3,890)
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF GARVIN, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2013

	Garvin Public Works Authority Enterprise Fund	
	June 30, 2013	Memo Only June 30, 2012
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 52,203	\$ 41,894
Investments	16,466	16,368
Total Current Assets	68,670	58,262
Noncurrent Assets:		
Restricted cash and cash equivalents	10,115	9,336
Other capital assets, net of accumulated depreciation	430,758	445,718
Total Noncurrent Assets	440,873	455,054
TOTAL ASSETS	509,543	513,316
<u>LIABILITIES & NET POSITION</u>		
Current Liabilities:		
Accrued Interest Payable	-	-
Current Portion of Long-Term Debt	2,974	2,829
Customer Deposits	7,323	6,923
Total Current Liabilities	10,297	9,752
Noncurrent Liabilities:		
Notes Payable - USDA RD	15,547	18,377
Less: Current Portion of Long-Term Debt	(2,974)	(2,829)
Total Noncurrent Liabilities	12,573	15,547
TOTAL LIABILITIES	22,870	25,300
NET POSITION:		
Net investment in capital assets	415,211	427,341
Restricted for debt service	10,115	9,336
Unrestricted	61,347	51,340
TOTAL NET POSITION	\$ 486,672	\$ 488,017

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT F

TOWN OF GARVIN, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Garvin Public Works Authority Enterprise Fund	
	<u>June 30, 2013</u>	<u>Memo Only June 30, 2012</u>
<u>OPERATING REVENUES:</u>		
Water, Sewer, Sanitation, and Tap Fees	\$ 42,603	\$ 47,645
TOTAL OPERATING REVENUES	<u>42,603</u>	<u>47,645</u>
<u>OPERATING EXPENSES:</u>		
Water Purchases	9,640	13,523
Commissions & Fees	1,247	1,197
Materials & Supplies	105	-
Depreciation Expense	14,960	14,960
Office Expense & Miscellaneous	515	368
Professional Fees	-	2,375
Repairs & Maintenance	50	907
Contract Labor	8,510	9,055
Utilities	7,361	8,472
Bank Charges	309	620
Miscellaneous	526	119
TOTAL OPERATING EXPENSES	<u>43,223</u>	<u>51,595</u>
NET OPERATING INCOME (LOSS)	<u>(620)</u>	<u>(3,950)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	130	175
Interest Expense	(855)	(992)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(724)</u>	<u>(818)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	<u>(1,344)</u>	<u>(4,768)</u>
Capital Contributions	-	-
Transfers in	-	-
Transfers out	-	-
CHANGE IN NET POSITION	<u>(1,344)</u>	<u>(4,768)</u>
TOTAL NET POSITION - BEGINNING	488,017	492,735
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	-	50
TOTAL NET POSITION - ENDING	<u><u>\$ 486,672</u></u>	<u><u>\$ 488,017</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT G

**TOWN OF GARVIN, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	2013	Memo Only 2012
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 42,603	\$ 47,645
Other Cash Receipts	-	-
Payments to Suppliers, Employees & Laborers	(28,263)	(36,636)
Receipts of Customer Utility Deposits, Net of Refunds	400	200
Net Cash Provided (Used) by Operating Activities	<u>14,740</u>	<u>11,210</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Operating Transfers in	-	-
Operating Transfers Out	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>	<u>-</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	-
Capital Contributions	-	-
Loan Proceeds received	-	-
Principal paid on Notes	(2,829)	(2,692)
Interest paid on Notes	(855)	(992)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(3,684)</u>	<u>(3,684)</u>
<u>Cash Flows from Investing Activities:</u>		
(Increase)Decrease in Investments	(98)	(138)
Interest Income	130	175
Net Cash Provided (Used) by Investing Activities	<u>32</u>	<u>37</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 11,088	 7,563
Cash & Cash Equivalents, Beginning of Year	51,231	43,668
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 62,318</u>	<u>\$ 51,231</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (620)	\$ (3,950)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation Expense	14,960	14,960
Increase(Decrease) in Customer Deposits	400	6,923
Net Cash Provided (Used) by Operating Activities	<u>\$ 14,740</u>	<u>\$ 17,933</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Garvin
Blended Component Units:	Garvin Public Works Authority (GPWA)

PRIMARY GOVERNMENT

The Town of Garvin, Oklahoma is a "Statutory Town Government" under Title 11 of the Oklahoma Statutes.

The Town provides the following services: public safety, streets and highways, sanitation, public improvements, and general administrative services. The Garvin Public Works Authority (Enterprise Fund) provides water and sewer services. The Garvin Public Works Authority (the PWA) is a public trust created under the authority of Title 60 Oklahoma Statutes. The Town board of trustees and PWA board of directors are the same.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit;

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Garvin Public Works Authority. The Town board of trustees, and PWA board of directors are the same.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Proprietary Fund:

Enterprise Fund

The PWA Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as sewer, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary fund capital assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported,

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the City utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. Financial Position

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand deposits (checking accounts, NOW accounts, and savings). All investments are stated at cost, which approximates market, unless otherwise indicated. The PWA considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves at June 30, 2013. All budget appropriations lapse at the end of the fiscal year.

BUDGET

In accordance with Oklahoma Statutes, Title 68, the Town Council is required to formally adopt annual budgets, which include substantially all general funds. These required annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

CAPITAL ASSETS

The Town records all capital assets at cost. The capitalization threshold has been set at \$500.00. Capital assets purchased by the Town are recorded as capital outlay in the Governmental Fund Type Balance Sheet. Assets purchased by the PWA (Enterprise Fund) are recorded in the PWA as assets at cost or if contributed property at the estimated fair market value at the time of contribution. Repairs and maintenance cost are recorded as expenses. Governmental Fund Type capital assets are not depreciated. The sale or disposition of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Assets recorded in the PWA are depreciated over their useful lives of 5 to 50 years using the straight-line method. The Town does not include "infrastructure" capital assets - roads, bridges, streets, and similar assets that are immovable, in its financial statements. The Enterprise Fund applies FASB No. 62 and capitalizes interest expense of borrowings related to construction project loans less the related interest earned on temporary interest bearing investments.

The Town and Enterprise Fund have not maintained complete detailed records of capital assets owned and still in service. The amounts recorded as property, plant, and equipment of the Enterprise Fund at June 30, 2013 has been estimated. The amounts of property, plant and equipment recorded in the Governmental Fund Types have also been estimated.

Enterprise Fund Depreciation:

Depreciation has been calculated on the straight-line basis over the assets estimated useful lives. Estimated useful lives are as follows:

Water and sewer system	30-50 Years
Machinery and equipment	5-20 Years

DUE TO AND DUE FROM OTHER FUNDS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

ESTIMATES

The preparation of financial statements, in conformity with the modified cash basis of accounting, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND FRINGE BENEFITS

Governmental Generally Accepted Accounting Principles require the recording of an expenditure and the accrual of a liability for future vacation, sick pay, and other leave benefits for employee services already rendered, related to rights that vest, if the payment of compensation is probable and the amount of benefits can be reasonably estimated.

The Town's financial statements have been prepared on the modified cash basis and benefit cost (if any) are recognized when the benefits are paid. An accrued liability for benefits has not been recognized or reported in the financial statements.

EQUITY CLASSIFICATION

Net Position is classified and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

The purposes of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Community Center Fund	Grant Income
Wellness Center Fund	Miscellaneous Income

E. Revenues, Expenditures, and Expenses

Sales Tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission.

Property Tax

For the year ended June 30, 2013, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Enterprise Fund Revenues

Revenues consist of sales of water, sewer, and sanitation services to individuals, business owners, and others within the Town corporate limits and nearby area.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types	-	By Character: Current (further classified by activity) Capital Outlay
Proprietary Fund Types	-	By Operating and Non-Operating

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

As described in Note 4, the Authority was in compliance with the reserve requirements of the Rural Development loan agreements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Authority for this fiscal year.

Excess of Expenditures Over Appropriations

The Towns total charges to appropriations did not exceed budgeted amounts. However, the amounts available for appropriation were less than budgeted.

NOTE 3 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At June 30, 2013, the Town held deposits of approximately \$102,579 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school Town tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school Town.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account the sum of the annual installment (\$3,684), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2013, the account balance for the reserve account was \$6,580.59, which complies with the covenants of the loan agreement

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the Governmental Fund Type, resulting from the modified cash transactions, for the fiscal year ended June 30, 2013, was as follows:

	Balance 7/1/12	Additions	Deductions	Balance 6/30/13
Buildings & Improvements	\$ 117,818	\$ -	\$ -	\$ 117,818
Equipment	87,964	-	-	87,964
Subtotal	205,782	-	-	205,782
Less: Accum. Depreciation	-	-	-	-
Total Capital Assets	<u>\$ 205,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,782</u>

Capital asset activity for the Proprietary Fund Type, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2013, was as follows:

	Balance 7/1/12	Additions	Deductions	Balance 6/30/13
Land	\$ 78,750	\$ -	\$ -	\$ 78,750
System & Improvements	623,199	-	-	623,199
Subtotal	701,949	-	-	701,949
Less: Accum. Depreciation	(256,231)	(14,960)	-	(271,190)
Total Capital Assets (Net of Depreciation)	<u>\$ 445,718</u>	<u>\$ (14,960)</u>	<u>\$ -</u>	<u>\$ 430,758</u>

Depreciation expense for the year ended June 30, 2013, aggregating \$14,960, has been computed on assets with a cost basis totaling \$701,949. There were no current year additions.

NOTE 6 - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

As of June 30, 2013, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

There are currently no governmental fund long-term debts outstanding.

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

BUSINESS-TYPE ACTIVITIES

ENTERPRISE FUND - GARVIN PUBLIC WORKS AUTHORITY

The Authority has a note payable (Note 92-02) dated July 11, 1978 to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$246 until maturity, including interest at 5.0%. The original amount of the loan was \$50,000.00. The final payment is scheduled for July 11, 2018. The note is secured by a mortgage on the Authority's water and sewer systems including all real and personal property and including the revenues and profits from the operations of the systems.

The Authority has a note payable (Note 92-03) dated August 54, 1979 to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$61 until maturity, including interest at 5.0%. The original amount of the loan was \$12,400.00. The final payment is scheduled for August 54, 2019. The note is secured by a mortgage on the Authority's water and sewer systems including all real and personal property and including the revenues and profits from the operations of the systems.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
USDA RD Note 92-02	\$ 14,382.41	\$ -	\$ (2,284.66)	\$ 12,097.75
USDA RD Note 92-03	3,994.25	-	(544.61)	3,449.64
Total Long-Term Debt	<u>\$ 18,376.66</u>	<u>\$ -</u>	<u>\$ (2,829.27)</u>	<u>\$ 15,547.39</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2013, are as follows:

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Year Ended June 30,	USDA RD Note 92-02			USDA RD Note 92-03		
	Principal	Interest	Annual Payment	Principal	Interest	Annual Payment
2014	\$ 2,402	\$ 550	\$ 2,952	\$ 573	\$ 159	\$ 732
2015	2,525	427	2,952	602	130	732
2016	2,654	298	2,952	633	99	732
2017	2,789	163	2,952	665	67	732
2018	1,728	30	1,758	699	36	735
2019-2023	-	-	-	279	3	282
Total	<u>\$ 12,098</u>	<u>\$ 1,468</u>	<u>\$ 13,566</u>	<u>\$ 3,450</u>	<u>\$ 492</u>	<u>\$ 3,945</u>

NOTE 7 - INTERFUND TRANSFERS

The interfund transactions for the year were as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Special Revenue	-	23,641
Wellness Center	-	-
Garvin PWA	-	-
Garvin Public Works Authority:		
General Fund	-	-
Special Revenue:		
General Fund	23,641	-
Wellness Center:		
General Fund	-	-
Total All Funds	<u>23,641</u>	<u>23,641</u>

NOTE 8 - RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major government programs and areas.

The types of insurance coverage carried by the Town are listed below:

<u>Type of Coverage</u>	<u>Provided By</u>
Public Officials Liability	Commercial Insurance
Commercial Property	Commercial Insurance
General Liability	Commercial Insurance
Workers Compensation	State Insurance Fund

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - WATER PURCHASES

Up until January 1996, the PWA was using wells located in Garvin for its water supply. During January 1996, the PWA began to purchase its water supply from Forest Grove at a rate of \$1.11 per 1,000 gallons. During the year ended June 30, 1999, the PWA began purchasing water from Broken Bow PWA gravity flow at a rate of \$0.82 per 1,000 gallons. That rate has increased several times over the years. As of the year ending June 30, 2013, the rates have increased and are now \$2.20 per 1,000 gallons.

NOTE 10 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted net position include assets related to Note 7 above.

Fund Balances

Town of Garvin, Oklahoma
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2013

	General Fund	Street & Alley Fund	Fire Dept. Fund	CDBG Grant Funds	Total Governmental Funds
FUND BALANCES:					
Committed to:					
Community Center	\$ -	\$ 104	\$ -	\$ -	\$ 104
Wellness Center	-	-	6,829	-	6,829
Nutrition Center	-	-	-	268	268
Unassigned	16,593	-	-	-	16,593
Total	<u>\$ 16,593</u>	<u>\$ 104</u>	<u>\$ 6,829</u>	<u>\$ 268</u>	<u>\$ 23,794</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The Town participates in certain federal and state grant programs as available; currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

NOTE 12 - LEASES

The Garvin Public Works Authority leases from the Town of Garvin, the water production, storage, transportation and distribution system, and facilities including all tangible property and all interest thereof as well as the sanitary sewage collection, transportation, processing, and disposal system, and garbage and trash collection system and facilities including all tangible property and all interest, for a term of 50 years that commenced January 12, 1977, and terminates January 11, 2027. The stipulated lease payment is the installation and construction of improvements to the leased property and the operation of the facilities for the benefit of the lessor. These ongoing improvements and operations will be the total consideration for the lease terms and all renewals thereafter. At the expiration of the term of the lease, the lessee has the option to renew the lease for the same number of years under the same terms and conditions.

TOWN OF GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13 - PENSION PLAN

The Town does not maintain or contribute to any type of pension plan.

NOTE 14 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through June 5, 2014, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2013.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Town of Garvin, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Garvin, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Garvin, Oklahoma's basic financial statements, and have issued our report thereon dated June 5, 2014, which was qualified for the improper capital asset recordkeeping and the omission of the financial activities of the Fire Department Fund.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Garvin's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Garvin's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Garvin's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 13-01, 13-02 and 13-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Garvin's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are included in the Schedule of Findings as Item 13-04. The results of our tests disclosed no instances of other matters that are required to be reported under Government Auditing Standards.

Town of Garvin's Response to Findings

Town of Garvin's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Garvin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

June 5, 2014

TOWN OF GARVIN, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

INTERNAL CONTROL FINDINGS

Item 13-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

Item 13-02: Capital Asset Recordkeeping

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

TOWN OF GARVIN, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: We recommend the governing body and management take appropriate action to direct the staff to initiate this project and provide funding for the continued update and maintenance of these records to meet its public accountability responsibility in managing these Town assets.

Response: The Town does not have the resources available to maintain such a list.

Item 13-03: Refundable Water Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Authority does not keep a ledger regarding the balance of customer deposits. Also, the water meter deposit bank account is not sufficient to cover the customer deposits liability shown in the financial statements.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Authority has been made aware of the problem and will take steps to correct the situation.

COMPLIANCE FINDINGS

Item 13-04: Water and Sewer Recordkeeping

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to maintain income and expense records for water and sewer systems separately.

Condition: The Authority maintains separate billing records for water and sewer income. However, the Authority does not maintain

TOWN OF GARVIN, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2013

separate income and expense accounts for the water and sewer systems.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement as the USDA will no longer be accepting audits that do not have Water and/or Sewer Records broken out separately.

Response: The Authority was not aware of the requirement.

TOWN OF GARVIN, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 21,056	\$ 21,056	\$ 21,056	\$ -
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	20,032	20,032	18,833	(1,199)
Cigar Tax	278	278	272	(6)
Franchise Tax	2,399	2,399	2,340	(59)
Intergovernmental:				
Motor Vehicle Tax	1,139	1,139	1,828	689
Alcoholic Beverage Tax	2,439	2,439	4,090	1,651
Gasoline Excise Tax	576	576	280	(296)
Grants	8,820	8,820	-	(8,820)
Donations	-	-	-	-
Sale of Property/Equipment	-	-	-	-
Miscellaneous Income	1,620	1,620	1,350	(270)
Interest Income	182	182	94	(88)
Operating Transfers In	24,563	24,563	23,641	(922)
Amounts available for appropriation	83,104	83,104	73,783	(9,321)
<u>Charges to Appropriations (Outflows):</u>				
General Government	57,048	57,048	57,190	(142)
Public Safety	-	-	-	-
Highways & Streets	-	-	-	-
Debt Service	-	-	-	-
Capital Outlay	5,000	5,000	-	5,000
Operating Transfers Out	-	-	-	-
Total Charges to Appropriations	62,048	62,048	57,190	4,858
Prior Year Adjustments to Fund Balance	-	-	-	-
Ending Budgetary Fund Balance	21,056	21,056	16,593	(4,462)

TOWN OF GARVIN, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013

In accordance with Oklahoma Statutes, Title 68, the Town Council is required to formally adopt annual budgets, which include substantially all general funds. These required annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

EXHIBIT I

TOWN OF GARVIN, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Nutrition Center	Special Projects Fund	Emergency Food Account	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 268	\$ -	\$ -	\$ 268
Investments	-	-	-	-
Due from General Fund	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	\$ 268	\$ -	\$ -	\$ 268
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Due to Other Governments	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	268	-	-	268
Assigned	-	-	-	-
Unassigned	-	-	-	-
TOTAL FUND BALANCES	268	-	-	268
TOTAL LIABILITIES AND FUND BALANCES	\$ 268	\$ -	\$ -	\$ 268

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT J

TOWN OF GARVIN, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Nutrition Center	Special Projects Fund	Emergency Food Account	Total Nonmajor Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	\$ -	\$ -	\$ -	\$ -
Franchise Tax	-	-	-	-
Intergovernmental:				
Alcoholic Beverage Tax	-	-	-	-
Gasoline Excise Tax	-	-	-	-
Motor Vehicle Tax	-	-	-	-
Grants	-	-	-	-
Fines & Forfeitures	-	-	-	-
Miscellaneous Income	5,220	-	-	5,220
Interest Income	-	-	-	-
TOTAL REVENUES	5,220	-	-	5,220
EXPENDITURES:				
Current:				
Personal Services	-	-	-	-
Maintenance & Operations	5,742	-	-	5,742
Capital Outlay	-	-	-	-
Debt Service - Principal & Interest	-	-	-	-
TOTAL EXPENDITURES	5,742	-	-	5,742
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	(523)	-	-	(523)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGES IN FUND BALANCES	(523)	-	-	(523)
FUND BALANCE - BEGINNING OF YEAR	790	-	-	790
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 268	\$ -	\$ -	\$ 268

See Accountant's Audit Report & Notes Which Accompany These Financial Statements